

THE OHIO STATE UNIVERSITY

TOPIC: Fiscal Year 2022 Interim Financial Report – December 31, 2021

CONTEXT: The purpose of this report is to provide an update of financial results for the six months ending December 31, 2021

FINANCIAL SUMMARY

The university's overall financial position remains strong. Fall semester was characterized by a return to a near normal university operations and a full college experience for our students. Operating revenues for the first half of fiscal year 2022 increased \$423 million compared to the first half of fiscal year 2021, driven primarily by strong growth in Health System patient volumes and the return of fall sports. Specific impacts include:

- A \$214 million increase in healthcare revenues, reflecting increases in hospital patient acuity and growth in outpatient volumes.
- A \$129 million increase in auxiliary revenues, reflecting football ticket sales and higher occupancy for student housing and dining.
- A \$45 million increase in federal COVID-19 assistance, including both student and institutional grants of Higher Education Emergency Relief Funds (HEERF).

Year-to-date increase in net position was \$541 million, down \$457 million compared to prior year. The decrease is primarily due to a \$592 million decrease in net investment income, which was partially offset by a \$129 million increase in auxiliary revenues. Additional details on university revenues, expenses, cash and investments, and cash flows are provided below.

Revenues

Student tuition and fees, net - increased \$42 million or 9%, to \$488 million for the six months ending December 31, 2021, compared to the same period of fiscal year 2021, due primarily to an increase in gross tuition of \$82 million. Gross tuition increased \$73 million for Autumn semester and \$9 million for Summer semester, offset by an increase in scholarship allowance of \$40 million. Autumn and Summer tuition increased primarily due to a return to in-person instruction and full assessment of non-resident fees. Similarly, scholarships increased to cover increases in fees for non-residents and HEERF financial aid to students.

Grants and contracts – increased slightly for the first half of fiscal year 2022 compared to fiscal year 2021. Federal and local grants increased \$1 million and \$3 million, respectively. State and private grants were flat.

Gifts - Increased \$63 million over the prior year due primarily to increases in private capital gifts of \$35 million, current use gifts of \$16 million, and additions to permanent endowments of \$12 million.

Sales and services of auxiliary enterprises - increased \$129 million for the six months ending December 31, 2021, compared to prior year due primarily to the resumption of fall sports of \$82 million, increases in Student Life housing and dining revenues of \$32 million, and increases in Business Advancement (Schottenstein Center, Blackwell, and Fawcett Center) revenues of \$15 million.

Federal COVID-19 assistance programs – increased \$45 million over the prior year primarily due to increases in HEERF grants to students of \$47 million, HEERF institutional grants of \$26 million, and Shuttered Venue Operators Grant for the Schottenstein Center of \$10 million and Wexner Center for the Arts of \$273,470 million, offset by federal pass-through funds from the State of Ohio of \$42 million in fiscal year 2021.

State non-exchange grants – increased \$15 million over the prior year primarily due to increases in JobsOhio Education and Research grants of \$10 million, Care Innovation and Community Improvement programs for Dentistry and Optometry of \$3 million, and various Ohio financial aid grants of \$2 million.

Sales and services of the OSU Health System and OSU Physicians, Inc - increased \$214 million to \$2,391 million. The Health System had solid outpatient volumes and strong chemotherapy and radiation oncology volumes. The operating revenue per adjusted admission were 9.7% above prior year. OSU Physicians experienced a similar trend with a year-over-year increase of \$37 million.

Expenses

University – expenses increased \$126 million or 10%, to \$1,444 million in the first half of fiscal year 2022 due to a return to in-person instruction, resumption of on campus events and operations, and 3% increase in faculty and staff salary guidelines.

OSU Health System and OSU Physicians - expenses increased \$200 million to \$2,110 million. Health System expense per adjusted admission increased 10.4% from prior year. Expenses increased due to growth in outpatient volumes as well as higher transplant volumes, Covid-19 lab expenses, higher surgical and procedural expenses, and increased agency usage and premium pay.

Auxiliary – expenses increased \$46 million to \$178 million for the two quarters ending December 31, 2021, compared to prior year, primarily due to the resumption of fall sports, increased occupancy for student housing, and return of Schottenstein Center events.

Cash and Investments

Total university cash and investments increased \$1,674 million to \$12,219 million on December 31, 2021, compared to the same period of last year, primarily due to the increase in the Long-Term Investment Pool of \$1,189 million and restricted cash from bond proceeds of \$523. Additional details are provided below.

Long-Term Investment Pool and Temporary Investments

For the six months ending December 31, 2021, the fair value of the university's Long-Term Investment Pool increased by \$298 million to \$7,340 million. Changes in total valuation compared to prior year are summarized below:

	2021	2020
Fair Value at June 30	\$ 7,041,973	\$ 5,287,131
Net principal additions	102,945	137,063
Change in market value	286,138	823,118
Income earned	82,890	63,875
Distributions	(128,465)	(122,290)
Expenses	(45,631)	(38,215)
Fair Value at December 31	\$ 7,339,850	\$ 6,150,682

Net principal additions include new endowment gifts (\$37.7 million), reinvestment of unused endowment distributions (\$7.5 million), and other net transfers of university monies (\$57.8 million with the majority to the Long-Term Operating Fund). Change in fair value includes realized gains (losses) on the sale of investment assets and unrealized gains (losses) associated with assets held in the pool on December 31, 2021. Income earned includes interest and dividends and is used primarily to help fund distributions. Expenses include investment management expenses (\$34.8 million), University Development related expenses (\$10.4 million), and other administrative-related expenses (\$0.4 million).

LTIP Investment Returns

For the six months ending December 31, 2021, the LTIP earned a return, net of investment fees, of 8.27% (shareholder version) versus a preliminary policy benchmark of 4.65% resulting in outperformance of 3.62%. During that period, our Private Equity returned 21.91% (compared to benchmark of 6.26%) followed by Real Assets at 18.59% (compared to preliminary benchmark of 9.86%), Legacy Investments at 5.72% (benchmark is return of actual underlying funds), Hedge Funds and Opportunistic Credit at 4.84% (compared to preliminary benchmark of 1.51%), Public Equity at 2.96% (compared to benchmark of 5.55%), and Cash and High-Grade Bonds at -0.15% (compared to benchmark of 0.06%).

The comparable six months ending December 31, 2020, saw a net investment return of 16.24%. During that period, our Public Equity returned 25.05%, followed by Private Equity at 20.12%, Real Assets at 9.25%, Hedge Funds and Opportunistic Credit at 8.81%, Legacy Investments at 1.91% and Cash and High-Grade Bonds at -0.45%.

Temporary Investments

For the six months ending December 31, 2021, the Tier 1 Investments (0-1 Year maturity) earned a return of 0.00%, underperforming the ICE Bofa 6m US Treasury Bill benchmark (+0.03%) by 0.03%. Tier 2 Investments (1-5 Year maturity) earned -0.24% outperforming the blended benchmark of ICE Bofa US Corp & Govt 1-3 Years and BBG US Govt/Credit 1-5 Years (-0.38%) by 0.14%.

The comparable six months ending December 31, 2020, saw Tier 1 Investments earn a return of 0.25%. Tier 2 Investments returned 1.87% for this same period.

Accounts Receivable

Accounts receivable increased \$244 million, to \$1,268 million at December 31, 2021. Receivables increased due primarily to sales and services for patients, departmental earnings, and auxiliary operations of \$98 million, grants managed by the Office of Sponsored Programs of \$109 million, and student tuition of \$34 million.

Long-term Bonds Payable, Subject to Remarketing and Bonds, Notes and Lease Payables

University debt, in the form of bonds, notes and capital lease obligations, increased \$643 million, to \$3.73 billion at December 31, 2021. On September 30, 2021, the university closed on \$600,000 in tax-exempt fixed rate General Receipts Bonds – Series 2021A. The interest rate coupons on the Series 2021A bonds range from 2.50% to 5.00%. The proceeds of the bonds will be used to fund construction of the Wexner Medical Center's new Inpatient Hospital, scheduled to open in 2026.

Cash Flows

University cash and cash equivalents increased \$344 million in the first two quarters of fiscal year 2022. Net cash used in operating activities was \$112 million, compared to \$177 million in the first two quarters of the prior fiscal year. The decrease relates primarily to increases in receipts for student tuition and sales from healthcare and auxiliary operations, offset by payments to vendors and employees. Net cash flows from noncapital financing activities increased \$568 million for the six months ending December 31, 2021, compared \$473 million for the prior year due primarily to increases in Federal COVID-19 assistance, current use gifts, and additions to endowments. Cash flows from capital financing activities increased \$150 million for the 1st half of fiscal year 2022 due primarily to the issuance of the 2021A bonds of \$718 million, offset by payments for capital assets of \$527 million and capital debt of \$44 million..

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF NET POSITION - UNAUDITED
December 31, 2021 and December 31, 2020
(in thousands)

	<u>As of December 2021</u>	<u>As of December 2020</u>	<u>Increase/(Decrease)</u>	
			<u>Dollars</u>	<u>%</u>
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 711,283	\$ 1,737,852	\$ (1,026,569)	-59.1%
Temporary investments	2,974,461	2,024,896	949,565	46.9%
Accounts receivable, net	1,267,987	1,023,562	244,425	23.9%
Notes receivable - current portion, net	25,231	25,655	(424)	-1.7%
Pledges receivable - current portion, net	63,799	79,240	(15,441)	-19.5%
Accrued interest receivable	21,014	18,219	2,795	15.3%
Inventories, prepaid expenses, and other assets	166,211	215,054	(48,843)	-22.7%
Investments held under securities lending program	171	9,065	(8,894)	-98.1%
Total Current Assets	<u>5,230,157</u>	<u>5,133,543</u>	<u>96,614</u>	<u>1.9%</u>
Noncurrent Assets:				
Restricted cash	847,452	324,095	523,357	161.5%
Notes receivable, net	35,885	50,205	(14,320)	-28.5%
Pledges receivable, net	97,441	59,248	38,193	64.5%
Net other post-employment benefit asset	275,182	77,901	197,281	253.2%
Long-term investment pool	7,339,850	6,150,682	1,189,168	19.3%
Other long-term investments	346,051	307,266	38,785	12.6%
Other noncurrent assets	204,133	-	204,133	100.0%
Capital assets, net	6,791,015	6,143,834	647,181	10.5%
Total Noncurrent Assets	<u>15,937,009</u>	<u>13,113,231</u>	<u>2,823,778</u>	<u>21.5%</u>
Total Assets	<u>21,167,166</u>	<u>18,246,774</u>	<u>2,920,392</u>	<u>16.0%</u>
Deferred Outflows:				
Pension	339,679	445,769	(106,090)	-23.8%
Other post-employment benefits	104,182	239,629	(135,447)	-56.5%
Other deferred outflows	23,122	31,078	(7,956)	-25.6%
Total Assets and Deferred Outflows	<u>\$ 21,634,149</u>	<u>\$ 18,963,250</u>	<u>\$ 2,670,899</u>	<u>14.1%</u>
LIABILITIES AND NET POSITION:				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 764,221	\$ 596,424	\$ 167,797	28.1%
Medicare advance payment program	174,512	287,500	(112,988)	-39.3%
Deposits and advance payments for goods and services	994,583	860,536	134,047	15.6%
Current portion of bonds, notes and leases payable	64,201	58,609	5,592	9.5%
Long-term bonds payable, subject to remarketing	289,970	317,715	(27,745)	-8.7%
Liability under securities lending program	171	9,065	(8,894)	-98.1%
Other current liabilities	109,180	80,097	29,083	36.3%
Total Current Liabilities	<u>2,396,838</u>	<u>2,209,946</u>	<u>186,892</u>	<u>8.5%</u>
Noncurrent Liabilities:				
Bonds, notes and leases payable	3,371,584	2,706,396	665,188	24.6%
Concessionaire payable	217,647	130,577	87,070	66.7%
Net pension liability	2,679,333	3,025,029	(345,696)	-11.4%
Net other post-employment benefit liability	22,683	1,459,572	(1,436,889)	-98.4%
Compensated absences	220,131	214,332	5,799	2.7%
Self-insurance accruals	84,275	86,889	(2,614)	-3.0%
Amounts due to third-party payors - Health System	94,350	59,516	34,834	58.5%
Irrevocable split-interest agreements	37,196	31,200	5,996	19.2%
Refundable advances for Federal Perkins loans	26,005	29,695	(3,690)	-12.4%
Advance from concessionaire	970,060	991,876	(21,816)	-2.2%
Other noncurrent liabilities	289,889	120,677	169,212	140.2%
Total Noncurrent Liabilities	<u>8,013,153</u>	<u>8,855,759</u>	<u>(842,606)</u>	<u>-9.5%</u>
Total Liabilities	<u>10,409,991</u>	<u>11,065,705</u>	<u>(655,714)</u>	<u>-5.9%</u>
Deferred Inflows:				
Parking service concession arrangement	392,468	402,099	(9,631)	-2.4%
Pension	682,490	487,347	195,143	40.0%
Other post-employment benefits	675,698	298,463	377,235	126.4%
Other deferred inflows	46,719	28,569	18,150	63.5%
Total Deferred Inflows	<u>1,797,375</u>	<u>1,216,478</u>	<u>580,897</u>	<u>47.8%</u>
Net Position:				
Net investment in capital assets	4,021,509	3,415,630	605,879	17.7%
Restricted:				
Nonexpendable	2,026,910	2,300,888	(273,978)	-11.9%
Expendable	2,143,848	1,232,580	911,268	73.9%
Unrestricted	<u>1,234,516</u>	<u>(268,031)</u>	<u>1,502,547</u>	<u>360.6%</u>
Total Net Position	<u>9,426,783</u>	<u>6,681,067</u>	<u>2,745,716</u>	<u>41.1%</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 21,634,149</u>	<u>\$ 18,963,250</u>	<u>\$ 2,670,899</u>	<u>14.1%</u>

THE OHIO STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - UNAUDITED
December 31, 2021 and December 31, 2020
(in thousands)

	December		Increase/(Decrease)	
	2021	2020	Dollars	%
Operating Revenues:				
Student tuition and fees, net	\$ 488,359	\$ 446,837	\$ 41,522	9.3%
Federal grants and contracts	217,383	216,262	1,121	0.5%
State grants and contracts	35,204	34,771	433	1.2%
Local grants and contracts	17,289	14,259	3,030	21.2%
Private grants and contracts	153,173	153,824	(651)	-0.4%
Sales and services of educational departments	96,216	79,696	16,520	20.7%
Sales and services of auxiliary enterprises	201,386	72,032	129,354	179.6%
Sales and services of the OSU Health System, net	2,040,906	1,863,829	177,077	9.5%
Sales and services of OSU Physicians, Inc., net	349,622	312,370	37,252	11.9%
Other operating revenues	30,584	13,958	16,626	119.1%
Total Operating Revenues	3,630,122	3,207,838	3,630,122	113.2%
Operating Expenses:				
Educational and General:				
Instruction and departmental research	551,339	518,902	32,437	6.3%
Separately budgeted research	266,770	268,429	(1,659)	-0.6%
Public service	90,600	85,759	4,841	5.6%
Academic support	131,044	116,236	14,808	12.7%
Student services	48,630	38,411	10,219	26.6%
Institutional support	190,800	151,522	39,278	25.9%
Operation and maintenance of plant	71,490	63,797	7,693	12.1%
Scholarships and fellowships	92,857	74,012	18,845	25.5%
Auxiliary enterprises	178,093	132,368	45,725	34.5%
OSU Health System	1,772,178	1,611,408	160,770	10.0%
OSU Physicians, Inc.	337,841	298,860	38,981	13.0%
Depreciation	251,810	217,642	34,168	15.7%
Total Operating Expenses	3,983,452	3,577,346	406,106	11.4%
Operating Loss	(353,330)	(369,508)	(353,330)	95.6%
Non-operating Revenues (Expenses):				
State share of instruction and line-item appropriations	246,619	234,152	12,467	5.3%
Federal subsidies for Build America Bonds interest	5,964	5,396	568	10.5%
Federal non-exchange grants	37,904	39,637	(1,733)	-4.4%
Federal COVID-19 assistance programs	114,233	68,925	45,308	65.7%
State non-exchange grants	22,811	7,776	15,035	193.4%
Gifts	109,244	93,563	15,681	16.8%
Net investment income	314,520	906,443	(591,923)	-65.3%
Interest expense on plant debt	(69,860)	(61,512)	(8,348)	13.6%
Other non-operating revenues (expenses)	8,555	3,392	5,163	152.2%
Net Non-operating Revenue (Expense)	789,990	1,297,772	(507,782)	-39.1%
Income (Loss) before Other Revenues, Expenses, Gains or Losses	436,660	928,264	436,660	47.0%
Changes in Net Position				
State capital appropriations	20,635	33,866	(13,231)	-39.1%
Private capital gifts	43,939	8,934	35,005	391.8%
Additions to permanent endowments	40,131	27,682	12,449	45.0%
Total Changes in Net Position	104,705	70,482	34,223	48.6%
Increase in Net Position	541,365	998,746	(457,381)	-45.8%
Net Position - Beginning of Year	8,885,418	5,682,321		
Net Position - End of Period	\$ 9,426,783	\$ 6,681,067		

THE OHIO STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - UNAUDITED
Years Ended December 31, 2021 and December 31, 2020
(in thousands)

	December 2021	December 2020	Increase (Decrease)	
			Dollars	%
Cash Flows from Operating Activities:				
Tuition and fee receipts	\$ 529,236	\$ 452,099	\$ 77,137	17.1%
Grant and contract receipts	351,212	355,624	(4,412)	-1.2%
Receipts for sales and services	2,802,063	2,440,045	362,018	14.8%
Payments to or on behalf of employees	(1,763,390)	(1,659,785)	(103,605)	6.2%
University employee benefit payments	(413,771)	(399,245)	(14,526)	3.6%
Payments to vendors for supplies and services	(1,559,568)	(1,313,466)	(246,102)	18.7%
Payments to students and fellows	(86,605)	(69,316)	(17,289)	24.9%
Student loans issued	(7,814)	(1,625)	(6,189)	380.9%
Student loans collected	9,255	4,969	4,286	86.3%
Student loan interest and fees collected	650	961	(311)	-32.4%
Other receipts (payments)	26,805	12,741	14,064	110.4%
Net cash used by operating activities	<u>(111,927)</u>	<u>(176,998)</u>	<u>65,071</u>	<u>-36.8%</u>
Cash Flows from Noncapital Financing Activities:				
State share of instruction and line-item appropriations	239,750	234,152	5,598	2.4%
Non-exchange grant receipts	60,715	47,413	13,302	28.1%
Federal COVID-19 assistance programs	114,233	68,925	45,308	65.7%
Gift receipts for current use	109,243	88,063	21,180	24.1%
Additions to permanent endowments	40,131	27,682	12,449	45.0%
Drawdowns of federal direct loan proceeds	146,113	258,500	(112,387)	-43.5%
Disbursements of federal direct loans to students	(143,769)	(254,578)	110,809	-43.5%
Amounts received for annuity and life income funds	1,967	423	1,544	365.0%
Amounts paid to annuitants and life beneficiaries	(1,099)	(1,145)	46	-4.0%
Agency funds receipts	687	1,218	(531)	-43.6%
Net cash provided by noncapital financing activities	<u>567,971</u>	<u>472,637</u>	<u>95,334</u>	<u>20.2%</u>
Cash Flows from Capital Financing Activities:				
Proceeds from capital debt and leases	715,388	-	715,388	100.0%
State capital appropriations	18,374	34,364	(15,990)	-46.5%
Gift receipts for capital projects	43,939	8,934	35,005	391.8%
Payments for purchase or construction of capital assets	(526,518)	(430,018)	(96,500)	22.4%
Principal payments on capital debt and leases	(43,624)	(43,322)	(302)	0.7%
Interest payments on capital debt and leases	(68,502)	(61,107)	(7,395)	12.1%
Federal subsidies for Build America Bonds interest	10,653	5,396	5,257	97.4%
Net cash provided (used) by capital financing activities	<u>149,710</u>	<u>(485,753)</u>	<u>635,463</u>	<u>130.8%</u>
Cash Flows from Investing Activities:				
Net (purchases) sales of temporary investments	(279,058)	(221,180)	(57,878)	26.2%
Proceeds from sales and maturities of long-term investments	945,356	2,577,395	(1,632,039)	-63.3%
Investment income	181,797	86,449	95,348	110.3%
Purchases of long-term investments	(1,109,501)	(2,623,418)	1,513,917	-57.7%
Net cash used by investing activities	<u>(261,406)</u>	<u>(180,754)</u>	<u>(80,652)</u>	<u>44.6%</u>
Net Increase (Decrease) in Cash	<u>344,348</u>	<u>(370,868)</u>	<u>\$ 715,216</u>	<u>-192.8%</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,214,387</u>	<u>2,432,815</u>		
Cash and Cash Equivalents - End of Period	<u>\$ 1,558,735</u>	<u>\$ 2,061,947</u>		